Goodyear Canada Inc.

1978 ANNUAL REPORT

Goodyear Canada inc. 1978 Annual Report

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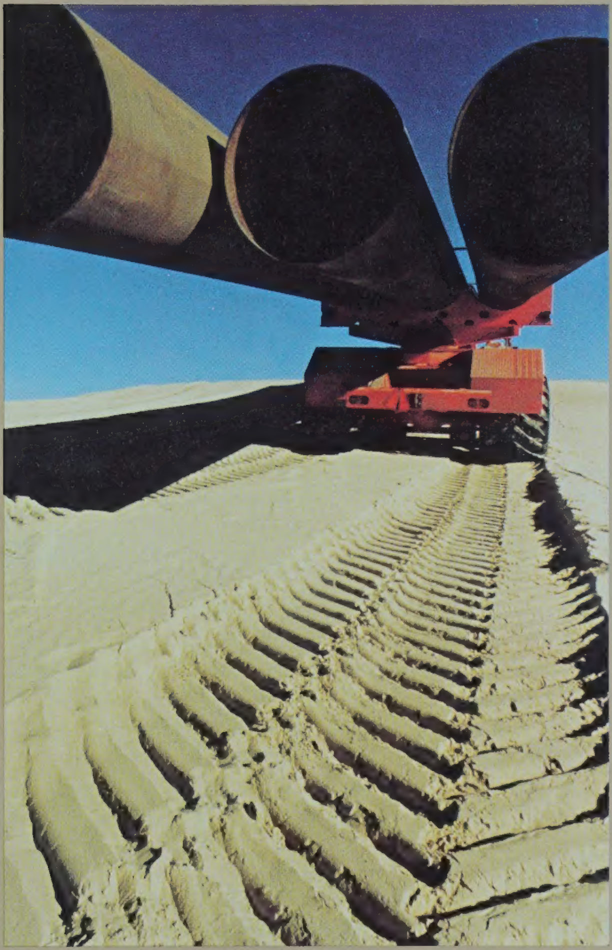


Mounted on a Magnum Four carrier, Goodyear Super Terra Grip tires dig deep into the sand during tests in Texas. The vehicle, manufactured by Canadian Foremost Limited of Calgary, Alberta, is expected to play a key role in desert or tundra pipeline construction.

COVER

Coal-carrying conveyor belts at Thunder Bay Terminals Limited on Lake Superior, are protected against extensive ripping by Goodyear's new Sensor Guard system. The belts were produced at the Bowmanville plant.

Goodyear Canada inc.

REPORT TO THE SHAREHOLDERS

Sales and income for the year ended December 31, 1978 were the highest in the company's history.

CONSOLIDATED NET SALES of $406,337,000 compared with $373,101,000 for 1977. This was an increase of $33,236,000 or 8.9 per cent.

CONSOLIDATED NET INCOME of $12,412,000 exceeded the $9,323,000 earned in 1977 by $3,089,000 or 33.1 per cent. The 1978 earnings were equivalent to $4.78 per common share, compared with $3.57 in the prior year.

FOURTH QUARTER SALES of $125,601,000 represented an increase of $22,723,000 or 22.1 per cent over the $102,878,000 recorded in 1977, and earnings of $6,121,000 compared with $2,832,000 in the corresponding period last year, an increase of $3,289,000 or 116.1 per cent.

DIVIDENDS paid in 1978 were equivalent to 79 cents per common share, compared with 69 cents in 1977. The additional 10 cents paid in 1978 represented a special tax-deferred dividend.

Dividends of $2.00 per share were paid on the four per cent preferred shares.

TAXES AND DUTIES amounted to $28,176,000 or $10.95 per common share, as against the $28,469,000 or $11.07 per common share paid in the previous year.

TOTAL COMPENSATION to employees, including pension, hospitalization, group insurance and related benefits, was $123,665,000, up 4.7 per cent from $118,124,000 in 1977.

CAPITAL EXPENDITURES totalled $4,899,000 in 1978, compared with $5,410,000 in 1977.

DEPRECIATION charged against earnings in 1978 was $10,417,000. Depreciation was $10,492,000 in 1977.

Many factors contributed to the all-time high sales results. Some items of special note were:

- the success of the Tiempo all-season radial tire, introduced to the Canadian market early in the summer;
- an increase in export volume;
- excellent performance by our general products division, the non-tire side of the business.

The record-high income was achieved in spite of increasing costs of labour, materials and equipment, and higher interest expenses even though there was a substantial reduction in corporate debt.

Contributing to improved profit performance were:

- continued strict control of costs and expenses;
- greater operating efficiences in most factories;
- scheduling of plants at or near capacity in the second half of 1978;
- reduced importation of radial tires made possible by increased production at Valleyfield.

The company reinforced its determination to remain ahead of competition through innovation. A formal program to stimulate original thinking and to promote the flow of new ideas from all levels has been in effect all year. The response of our employees continued to be most encouraging.

To protect our position of leadership among Canadian rubber manufacturers and marketers, we continued to emphasize product quality, uniformity and safety.

Personnel development continued to receive high priority. An enhanced emphasis has been planned for 1979 on training for our employees in virtually every division of the company.

In 1978, eleven collective bargaining labour agreements were signed and ratified by various union locals across the country. The entire year was strike-free.

A new corporate function was established with responsibility for safety and industrial hygiene. Its main objectives are: accident pre-

vention, evaluation of safety performance in all operations and improved working conditions.

NEW EXECUTIVES AND DIRECTORS

On October 1, J. Robert Hicks, president and chief executive officer since February 20, 1976, returned to The Goodyear Tire & Rubber Company of Akron, Ohio, where he has become executive vice-president of finance and a member of the board. He was succeeded by Albert W. Dunn, formerly managing director of Goodyear-South Africa. Mr. Dunn joined Goodyear in 1946 in Akron and served in various capacities both in the United States and abroad. Prior to becoming managing director in South Africa, in 1971, he was vice-president and general manager of the Goodyear subsidiary in the Philippines for 10 years.

Cyril M. Roberts was appointed vice-president, manufacturers' sales.

Two of Goodyear Canada's directors died in 1978: A. Deane Nesbitt and Louis A.-Lapointe. Mr. Nesbitt had served on the board since 1957 and Mr. Lapointe had been elected in 1966. Their support, advice and warm friendship will be missed.

Anthony S. Fell, president and chief executive officer of Dominion Securities Limited of Toronto, and Albert W. Dunn were elected to fill those two vacancies. Mr. Hicks continues as a director.

OUTLOOK

In spite of generally uncertain forecasts about the Canadian economy in 1979, our prospects appear good for the first half, thanks essentially to current substantial demand, both domestic and foreign, for most product lines. The outlook for the second half is less predictable. The general health of the national economies of both Canada and the United States and the effectiveness of the control of inflation are key to good performance for the rubber industry and Goodyear Canada.

Our company is well equipped to meet the challenges of the future. We have the technology, the manufacturing capacity, an efficient distribution network and a competent work force.

With the active support of our shareholders, dealers, employees and suppliers, we are confident that we will reach our overall objectives of maintaining the number one position in the Canadian market and improving return on investment.

With the approval of the board of directors,

A. W. DUNN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

FEBRUARY 7, 1979.

BOARD OF DIRECTORS

C. E. CLARKE
TORONTO

P. P. DAIGLE
MONTREAL

A. W. DUNN
TORONTO

A. S. FELL
TORONTO

J. H. GERSTENMAIER
AKRON

J. R. HICKS
AKRON

C. J. PILLIOD JR.
AKRON

B. M. ROBERTSON
AKRON

H. G. WLOKA
TORONTO

OFFICERS

A. W. DUNN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

C. E. CLARKE
VICE-PRESIDENT, GENERAL COUNSEL AND SECRETARY

L. F. HUHTA
VICE-PRESIDENT, TIRE PRODUCTION

C. H. JOHNSON
VICE-PRESIDENT, GENERAL PRODUCTS

P. G. MACKIE
VICE-PRESIDENT, MATERIALS MANAGEMENT

R. C. MARKHAM
VICE-PRESIDENT, TIRE SALES

C. M. ROBERTS
VICE-PRESIDENT, MANUFACTURERS' SALES

P. E. VIVIAN
VICE-PRESIDENT, PERSONNEL

H. G. WLOKA
VICE-PRESIDENT, FINANCE

W. R. HAYWARD
COMPTROLLER

B. R. TELFER
TREASURER

G. W. BARNES
ASSISTANT SECRETARY

H. P. LOVERING
ASSISTANT TREASURER

W. C. MONROE
ASSISTANT COMPTROLLER

J. RENNIE
ASSISTANT COMPTROLLER

F. E. WALKER
ASSISTANT COMPTROLLER

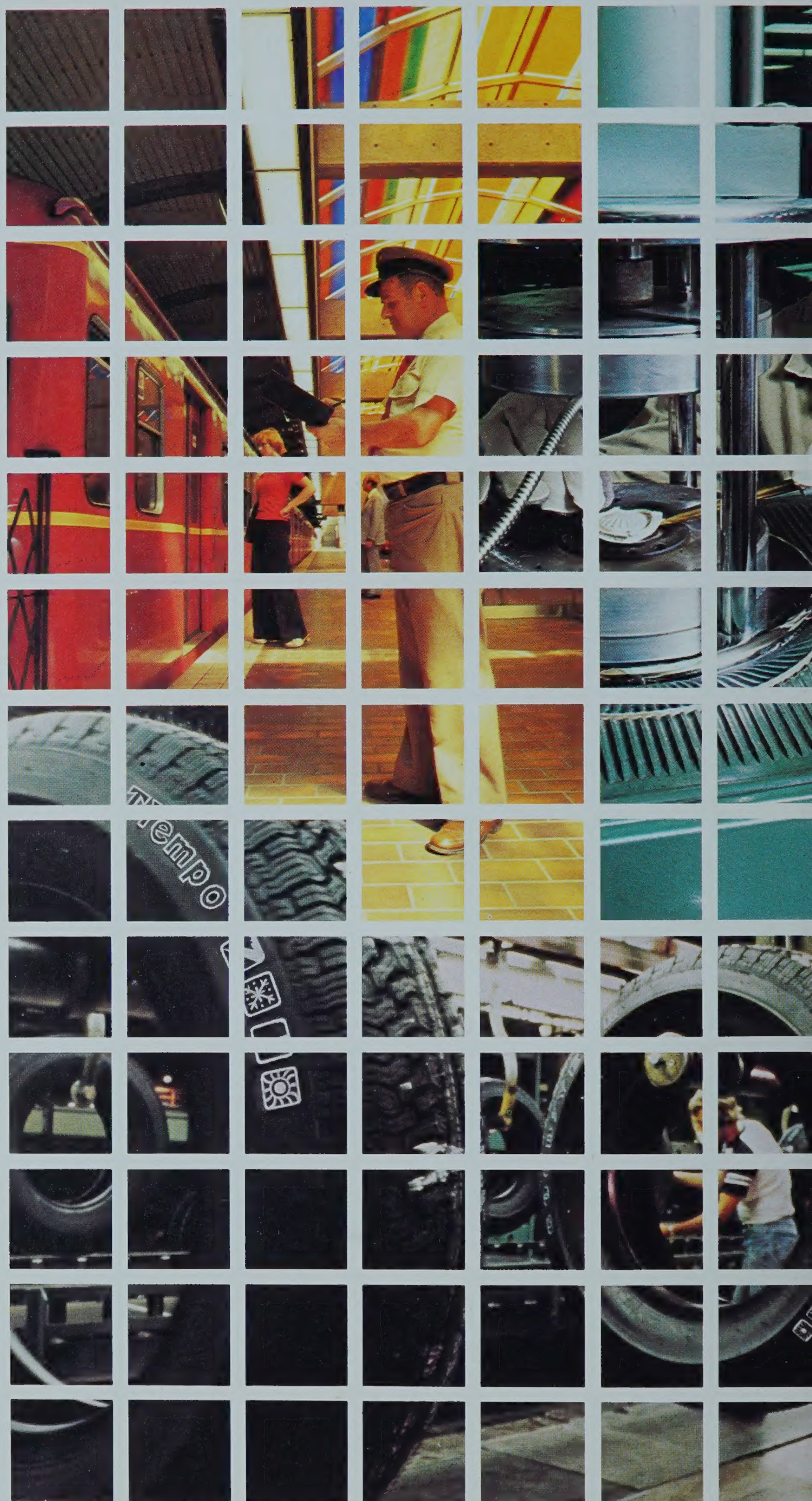
GOODYEAR CANADA AT A GLANCE

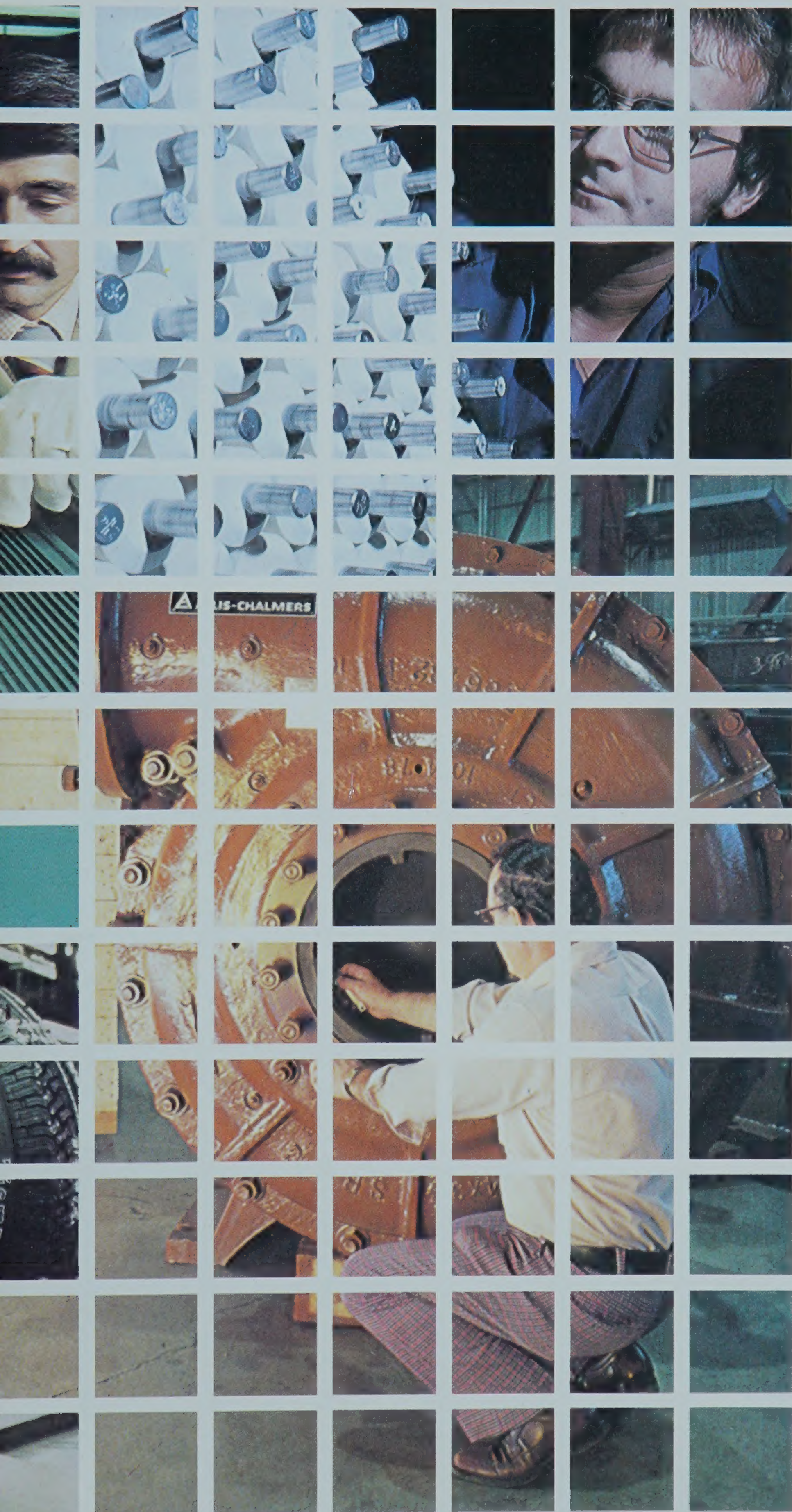
From the Tiempo all-season radial tire (bottom left of montage), which went into production in 1978, to the washing machine wringer rolls (top right), which the company has been making for decades, the products of Goodyear Canada are many and varied.

In addition to automobile tires, the company manufactures a full range of tires for trucks, farm machinery and off-the-road vehicles.

The general products division manufactures a large variety of molded and extruded goods, conveyor belts, hose and power-transmission belts. Among the division's several thousand types and sizes of products are the impellers and liners for pumps like the one being inspected at the Lachine, Quebec, plant of Allis-Chalmers Canada Limited (bottom right). Some are custom-made, like the rubber pads used to curb wayside noise and vibration on the newest line of the Toronto Transit Commission's subway system (top left).

The company's concern for quality is reflected in its extensive testing program, which includes all materials and products at various stages of manufacture. Lab supervisor Alek Petrov (top centre) uses a rheometer to determine the effect of vulcanization on a sample of white sidewall rubber compound.





HEAD OFFICE

3050 LAKE SHORE BLVD. WEST
TORONTO, ONTARIO
M8V 1K4

MANUFACTURING PLANTS

BOWMANVILLE, ONTARIO

CONVEYOR BELTING
SPECIAL PRODUCTS
MOLDED PUMP PARTS
RECLAIMED RUBBER
INDUSTRIAL TIRES

COLLINGWOOD, ONTARIO

AUTOMOTIVE, INDUSTRIAL AND
HYDRAULIC HOSE

MEDICINE HAT, ALBERTA

TIRES FOR AUTOMOBILES, LIGHT TRUCKS
AND FARM VEHICLES

OWEN SOUND, ONTARIO

POWER-TRANSMISSION PRODUCTS FOR
AUTOMOTIVE AND INDUSTRIAL APPLICATIONS

QUEBEC, QUEBEC

MOLDED AUTOMOTIVE AND
INDUSTRIAL PRODUCTS
EXTRUDED AUTOMOTIVE, INDUSTRIAL
AND APPLIANCE PRODUCTS
SHOE PRODUCTS

SAINT-HYACINTHE, QUEBEC

STEEL, POLYESTER, FIBREGLASS AND
NYLON FABRICS

TORONTO, ONTARIO

TIRES FOR AUTOMOBILES, TRUCKS, LOGGING-
AND FARM VEHICLES
INDUSTRIAL TIRES
TUBES
PLASTIC FILMS

VALLEYFIELD, QUEBEC

TIRES FOR AUTOMOBILES, TRUCKS AND
OFF-THE-ROAD VEHICLES

SALES DISTRICT OFFICES

EDMONTON, ALBERTA
MONCTON, NEW BRUNSWICK
SAINT-LAURENT, QUEBEC
TORONTO, ONTARIO
VANCOUVER, BRITISH COLUMBIA
WINNIPEG, MANITOBA.

TIRES

Nineteen seventy-eight was the year of the Tiempo tire, Goodyear's all-season radial, designed to eliminate winter tire changeovers for many Canadian motorists.

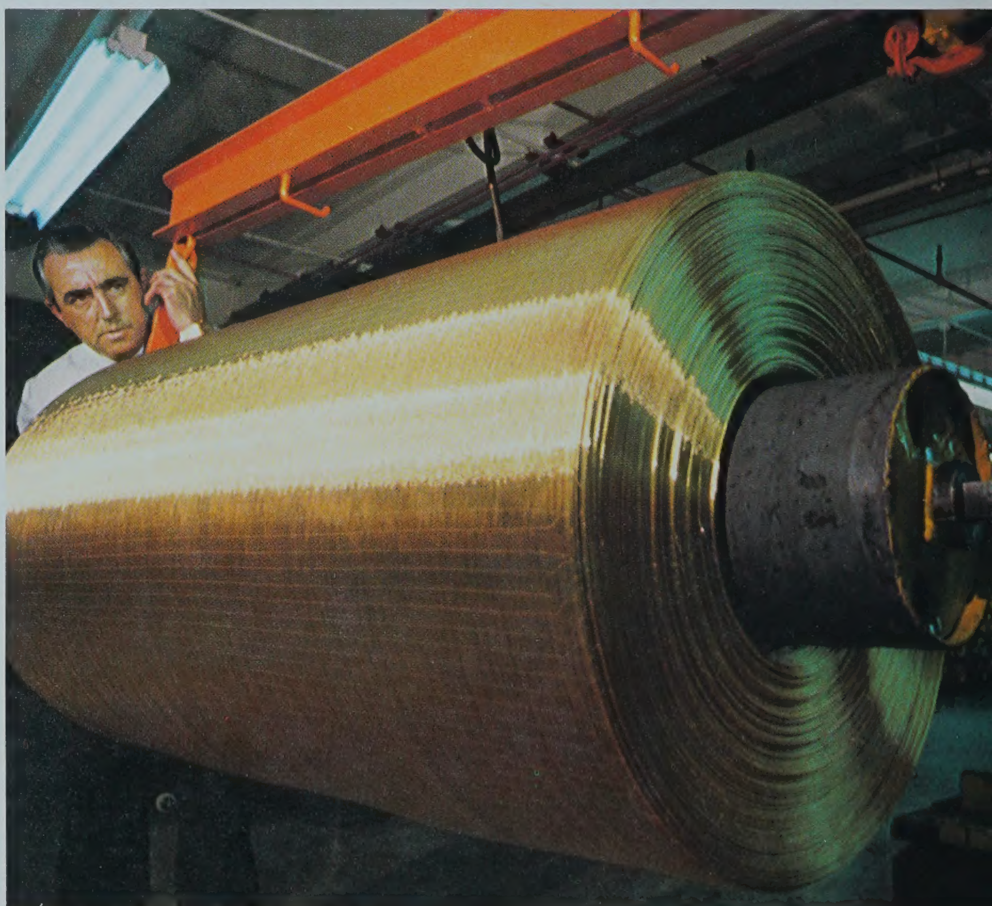
Introduced to the Canadian market in mid-year, the Tiempo exceeded the company's most optimistic sales expectations. The all-season tire was an immediate success, thanks to a well coordinated campaign involving market research, product planning, test-marketing, public relations, advertising and product promotion. Manufactured at the Valleyfield plant, the Tiempo is the most popular tire produced by Goodyear Canada so far.

The company also introduced the Cargo Hi-Miler, a truck tire for economy-minded customers. Designed for general highway service, the tire combines good traction with long wear. It is expected to be very popular with small transport companies.

Overall production increased substantially during 1978, and, at year-end, all plants were operating at or near capacity. Conversion to metric sizes was continued and intensified throughout the tire division.

Valleyfield reached record production levels. After operating below capacity in the first half of the year, the Toronto and Medicine Hat plants increased their production thanks to a surge in demand for export tires. In mid-year, an expansion was completed at Valleyfield which increased radial tire capacity by some 10 per cent. Later in the year, work was started on a $7.5 million project to increase radial tire production by another 20 per cent and make the plant Goodyear Canada's first all-radial passenger tire manufacturing facility.

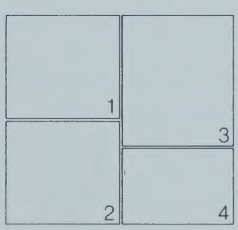
At the Toronto plant, production of the Convenience spare tire was started, and several changes were introduced to improve productivity; they included modification of building machines for large tractor tires and the installation of new equipment to increase mold-machining and assembling capacity.



A company-wide planned maintenance program went into effect in all tire plants; it is designed to achieve a reduction in equipment downtime and a better utilization of available engineering resources.

Added emphasis was put on training and personnel development. This was particularly evident at Valleyfield, where the plant's training centre was enlarged to accommodate a broader range of factory workers and supervisory staff.

The retail stores division continued to consolidate its technical and human resources to achieve higher efficiency and profitability. An example of the division's ongoing search for excellence was the opening in 1978 of two ultra-modern outlets, one in Ontario, the other in British Columbia, both featuring the latest concepts in automotive service equipment.



1 Since 1975, Goodyear earthmover tires have been playing a significant role in the giant James Bay Hydro-electric Project in northern Quebec.

2 Brass-coated steel fabric used to reinforce radial tires is inspected by François Vallières at the Saint-Hyacinthe plant.

3 Equipped with Goodyear tires more than three metres in diameter, trucks weighing up to 327 metric tons — including payload — haul asbestos ore from the Johns-Manville Canada Inc. open-pit mine at Asbestos, Quebec.

4 Surrounded by the latest in service equipment, Tom Soikie sets up electronic analyzer for engine tune-up at the company's service store in Brockville, Ontario.

GENERAL PRODUCTS

Nineteen seventy-eight was a record year for the general products division.

Strong demand for conveyor belts kept the Bowmanville plant operating at or near capacity throughout the year. One major order was a 34,000-foot shipment of steel-cable belting for a tar sands project in Northern Alberta.

An important innovation was the introduction to the Canadian market of Sensor Guard, an electronic system designed to prevent costly belt damage caused by ripping, belt wander or drive-pulley slippage. A major installation of this kind is now operating in Northern Ontario at a ship-loading facility on Lake Superior.

Production levels reached all-time highs at Collingwood, where hose for automotive pollution-control systems has become a big-volume item. Demand for hydraulic hose has exceeded production capacity to the point where the installation of additional equipment has become necessary.

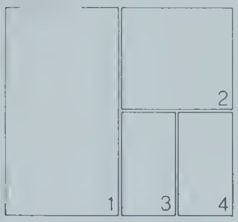
The Quebec City plant registered significant improvements in productivity, and new injection-molding equipment was installed to meet growing demand from automotive manufacturers.

Productivity also improved substantially in the Owen Sound plant, where the manufacture of V-belts reached higher levels in the second half of the year.

A plastic film to stretch-wrap pallet-loads of materials, introduced to the Canadian market in 1977, gained wide acceptance during 1978. Demand for other plastic films continued strong throughout the year, resulting in full-capacity plant operation on a seven-day-per-week schedule.

The general products division continued to work closely with road contractors to test the effectiveness of rubberized asphalt in road surfacing. The use of fine rubber crumbs mixed with asphalt is expected to extend road life by improving resistance to surface cracking caused by extreme weather conditions. Favorable test results could lead to substantial volumes

of profitable business and contribute to the protection of the environment by providing a practical method of old-tire disposal.



1 Tim Hughes, of the Collingwood plant, inspects high-pressure steam hose designed for use in the construction, chemical and petroleum industries.

2 Pallet-load of boxes is wrapped in layers of plastic film. Developed by Goodyear, the film is gaining wide acceptance as a substitute for steel strapping. In the picture: Doug Stewart of the Toronto plant.

3 Howard Davey, of the Bowmanville plant, sets up test to measure strength of galvanized steel cable used to reinforce some types of conveyor belting. The cable is subjected to increasing tension until it snaps.

4 Road gang lays asphalt mixed with Goodyear-supplied granulated rubber at a heavily travelled test site near Toronto International Airport. Rubber has been found to extend the life of asphalt pavements.

GOODYEAR PEOPLE

Goodyear employees have been traditionally involved in community activities, especially sports. Where Goodyear facilities exist, chances are employees manage or coach youngsters in their favorite games. Hockey is Canada's most popular sport, and this is reflected in the number of minor leagues across the country. Also popular are lacrosse, Canada's national summer game, and soccer. Goodyear employees are active in these three games, as well as basketball and baseball, some leading their teams to provincial, national and international championships.

Bob Doherty of industrial engineering at the Toronto plant played lacrosse for 15 years. He started coaching in 1978 and promptly led his team to the Ontario tyke 'B' title.

Guy Blanchard, a maintenance mechanic at the Saint-Hyacinthe textile plant, helps prepare youngsters to play in local leagues by teaching them the fundamentals of "the world's fastest game" in an area considered one of the prime sources of hockey players in Canada.

Gerry Cairns, Goodyear Canada's manager of wholesale credit, came to Canada from Scotland in 1957 as a professional soccer player, and has now channeled his experience into coaching and managing. Last year, his team of 7- and 8-year-old boys won the 'Squirt' championship at the Robbie International Soccer Festival, which featured 100 teams from Canada, the U.S. and Mexico.

1 Even during a practice break, Gerry Cairns keeps his players on their toes by making them use their heads.

2 Bob Doherty stresses the finer points of lacrosse with members of his championship team.

3 Wearing the colours of the Montreal Canadiens, beginners are put through a practice drill by Guy Blanchard.

Goodyear Canada inc.

Consolidated Balance Sheet

Dollars in thousands

Assets

	December 31 1978	1977
Current Assets:		
Cash	$ 462	$ 926
Accounts receivable	64,116	60,905
Due from affiliated companies	12,103	5,823
Inventories:		
Raw materials	15,957	14,302
Work in process	6,135	5,699
Finished product	64,043	65,699
	86,135	85,700
Prepaid expenses	6,045	5,564
Total Current Assets	168,861	158,918
Miscellaneous Investments at cost less allowances	1,831	1,820
Properties and Plants:		
Land and improvements	5,820	5,938
Buildings	54,549	53,438
Machinery and equipment	152,617	150,711
Construction in progress	1,850	2,271
	214,836	212,358
Less: Depreciation	121,985	113,694
	92,851	98,664
	$263,543	$259,402

Approved by the Board:

Director

Director

Liabilities

	December 31 1978	1977
Current Liabilities:		
Bank indebtedness	$ 21,560	$ 15,161
Loan from parent company	—	3,334
Accounts payable and accrued liabilities	27,605	26,949
Due to affiliated companies	13,954	14,051
Income and other taxes payable	8,058	2,211
Deferred income taxes	2,262	2,496
Dividend payable on preferred shares	31	35
Total Current Liabilities	73,470	64,237
Long Term Debt	59,035	72,468
Deferred Income Taxes	23,153	24,621
Deferred Income	534	580

Shareholders' Equity

	1978	1977
Capital Stock:		
4% cumulative redeemable sinking fund preferred shares (par value $50 per share; redeemable on call at $53 per share):		
Authorized, issued and outstanding, 1978 — 62,252 shares; 1977 — 70,244 shares	3,112	3,512
Common shares, no par value: Authorized, 2,906,600 shares; issued and outstanding, 2,572,600 shares	129	129
Capital Surplus	692	692
Retained Earnings	103,418	93,163
	107,351	97,496
	$263,543	$259,402

Goodyear Canada inc.

Consolidated Statement of Income

Dollars in thousands, except per share

	Year ended December 31 1978	1977
Net sales	$406,337	$373,101
Income from investments	334	319
	406,671	373,420
Deduct:		
Costs and expenses	370,293	342,527
Interest expense on long term debt	6,451	5,524
Other interest expense	1,183	1,165
Depreciation	10,417	10,492
	388,344	359,708
Income before taxes	18,327	13,712
Income taxes:		
Current	7,617	1,270
Deferred — Current	(234)	56
— Long Term	(1,468)	3,063
	5,915	4,389
Net income for the year	$ 12,412	$ 9,323
Net income per common share	$ 4.78	$ 3.57

Consolidated Statement of Retained Earnings

Dollars in thousands

	Year ended December 31 1978	1977
Balance at beginning of year	$ 93,163	$ 85,755
Net income for the year	12,412	9,323
	105,575	95,078
Deduct:		
Dividends:		
On common shares	2,032	1,775
On 4% preferred shares	125	140
	2,157	1,915
Balance at end of year	$103,418	$ 93,163

Consolidated Statement of Changes in Financial Position

Dollars in thousands

	Year ended December 31 1978	1977
Source of Working Capital:		
Net income for the year	$ 12,412	$ 9,323
Items not affecting working capital — principally depreciation and deferred taxes	8,769	11,964
Total from operations	21,181	21,287
Property disposals	296	1,850
Investments	—	143
	21,477	23,280
Application of Working Capital:		
Expenditures for properties and plants	4,899	5,410
Long term debt	13,433	3,432
Dividends	2,157	1,915
Preferred shares redeemed	267	115
Investments	11	—
	20,767	10,872
Increase in working capital	$ 710	$ 12,408

Auditors' Report

To the Shareholders of Goodyear Canada Inc.

We have examined the consolidated balance sheet of Goodyear Canada Inc. as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants
Toronto, January 26, 1979

Goodyear Canada inc.

Notes to Consolidated Financial Statements

1. Accounting Policies:

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. All significant inter-company transactions are eliminated on consolidation.

Inventories of raw materials are valued at the lower of cost and replacement cost, and inventories of work in process and finished product at the lower of standard cost (which approximates actual cost) and net realizable value.

Properties and plants are stated at cost. Depreciation is computed using the declining balance method for depreciable assets acquired up to December 31, 1967, and the straight line method for assets acquired after that date. Depreciation rates are based on the estimated useful lives of the assets, ranging up to 13 years for machinery and equipment and 40 years for buildings. Gains or losses on the disposal of fixed assets are included in income and the cost and accumulated depreciation related to these assets are removed from the accounts.

Assets, liabilities, income and expenses in foreign currencies are translated into Canadian dollars on the following bases:

Current assets and current liabilities, at year-end rates of exchange;

All other assets and liabilities, at historical rates of exchange;

Income and expenses, at approximate rates prevailing at the time of the transactions.

All realized and unrealized exchange gains or losses are included in income.

The consolidated financial statements do not purport to comply with all disclosure requirements unique to The Companies Act of British Columbia.

2. Long Term Debt:

	1978	1977
Bank loans due 1981 under revolving credit agreements with interest primarily at prime rates.	$54,035,000	$72,468,000
Bankers' acceptances supported by unused revolving credit agreements with interest at slightly less than prime rates.	5,000,000	—
	$59,035,000	$72,468,000

Bankers' acceptances, which by their terms are due within one year, have been classified as long term since it is the Company's intent to maintain these amounts as long term debt and the Company has sufficient unused non-cancellable revolving credit agreements available.

3. Income Taxes:

The Company, as a result of its manufacturing activities, is taxed at an effective rate of approximately 43%. The provision for income taxes in the Consolidated Statement of Income reflects a lower effective tax rate principally as a result of the 3% allowance on opening inventories and the 5% investment tax credit allowed on certain fixed asset additions.

4. Remuneration of Directors and Senior Officers:

Remuneration of directors and senior officers amounted to $568,000.

5. Anti-Inflation Program:

The Company was subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the anti-inflation program of the Government of Canada.

6. Commitments:

Effective January 1, 1978, improvements were made to certain of the Company's pension plans, several actuarial assumptions were changed, an experience surplus was realized, and the method of recognizing participating interest income from purchased annuities was changed from the cash to the accrual method of accounting. The Company's unfunded obligation for pension benefits arising from service prior to December 31, 1978 is estimated to be $28,414,000 ($31,675,000 in 1977). This obligation, which has not been recorded in the accounts, is to be amortized by annual payments charged against operations through 1992.

At December 31, 1978, the estimated cost to complete approved capital projects was $11,700,000.

Comparison with Prior Years

DOLLARS IN THOUSANDS, EXCEPT PER SHARE	1978	1977	1976	1975	1974
Net sales	$ 406,337	$ 373,101	$ 366,335	$ 329,229	$ 280,926
Net income	12,412	9,323	6,155	5,187	7,701
Net income per dollar of sales	3.1¢	2.5¢	1.7¢	1.6¢	2.7¢
Taxes and duties	$ 28,176	$ 28,469	$ 24,874	$ 26,892	$ 30,099
Depreciation	$ 10,417	$ 10,492	$ 9,610	$ 6,933	$ 6,010
Capital expenditures	4,899	5,410	11,636	24,458	31,225
Properties and plants — Net	92,851	98,664	104,119	102,538	84,726
Per common share:					
Net income	$ 4.78	$ 3.57	$ 2.33	$ 1.95	$ 2.91
Book value	40.52	36.53	33.65	31.94	30.59
Taxes and duties	10.95	11.07	9.67	10.45	11.70
Employee compensation	$ 123,665	$ 118,124	$ 114,189	$ 96,273	$ 74,864
Common shares outstanding	2,572,600	2,572,600	2,572,600	2,572,600	2,572,600

Printed in Canada

GOODYEAR